



The Art and Science of Nonprofit Budgeting

The CDFI Fund's Capacity Building Initiative: *Building Native CDFI's Sustainability and Impact*

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ICF and Friedman Associates



F|A

FRIEDMAN ASSOCIATES, LLC

Disclaimer

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Introduction

- The budgeting process can be daunting for nonprofits large and small. It is even more complex for CDFIs, which must project earned income, manage complex federal grants, and plan for loan losses.
- On this webinar, we'll discuss the what, why, who, and how of developing a budget, with a specific focus on using your budget to guide your organization.



Introduction, cont...



FRIEDMAN ASSOCIATES, LLC

Our mission is to help build and grow remarkably successful CDFIs.

- Senior-level industry professionals with decades of experience.
- Staff training in loan fund operations.
- Deep dive analysis of loan fund operations to assess performance and impact.
- Strategic/business plans to guide growth and sustainability.
- Financial model to forecast growth.
- Funding applications.

Presenters

Jason Friedman, Chief Executive Officer



Amy Szabo, Chief Client Services Officer

Learning Objectives

- Explain the types of budgets and their uses;
- Name core components of a basic budget;
- Identify steps to developing a budget and the stakeholders involved in the process;
- Identify 3 common ways to allocate shared costs; and
- Analyze a budget-to-actual financial report.



Let's Take A Poll!



How often do you look at a budget?

- At least weekly
- At least monthly
- At least quarterly
- Once a year
- Never

How active and engaged are you in your organization's budget process?

- 1 = Not engaged
- 5 = Heavily engaged

A Budget is More than...



....how your CDFI makes and spends money!

Done well, a budget serves to:

- Make the business case for mission-related goals.
- Provide an organizational road map to align staff.
- Intentionally allocate resources among competing priorities.
- Monitor actual performance against plan to inform action.

What are the three foundational types of budgets?



Organizational Budget

<Company Name> **Detailed Expense Estimator**

HOW TO USE THIS TEMPLATE: Input data in the white cells on the PLANNED EXPENSES and ACTUAL EXPENSES worksheets, and the EXPENSE VARIANCES and EXPENSE ANALYSIS will be calculated for you. If you add a row on one sheet, the other sheets need to match.

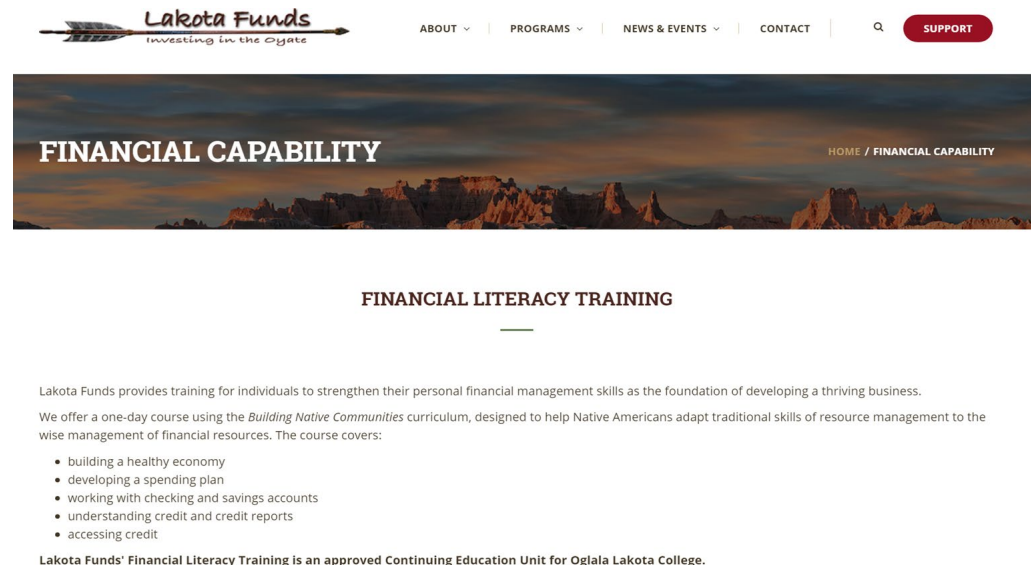
replace with LOGO

Planned Exp	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YEAR
Employee Cos													
Wages	####	####	####	####	####	####	####	####	####	####	####	####	####
Benefits	####	####	####	####	####	####	####	####	####	####	####	####	####
Subtotal	####	####	####	####	####	####	####	####	####	####	####	####	####
Office Costs													
Office lease	####	####	####	####	####	####	####	####	####	####	####	####	####
Gas	####	####	####	####	####	####	####	####	####	####	####	####	####
Electric	####	####	####	####	####	####	####	####	####	####	####	####	####
Water	####	####	####	####	####	####	####	####	####	####	####	####	####
Telephone	####	####	####	####	####	####	####	####	####	####	####	####	####
Internet acce	####	####	####	####	####	####	####	####	####	####	####	####	####
Office suppli	####	####	####	####	####	####	####	####	####	####	####	####	####
Security	####	####	####	####	####	####	####	####	####	####	####	####	####
Subtotal	####	####	####	####	####	####	####	####	####	####	####	####	####
Marketing Cos													
Web site hos	####	####	####	####	####	####	####	####	####	####	####	####	####
Web site upd	####	####	####	####	####	####	####	####	####	####	####	####	####
Collateral pri	####	####	####	####	####	####	####	\$0.00	\$0.00	####	\$0.00	\$0.00	####
Collateral pri	####	####	####	####	####	####	####	####	####	####	####	####	####
Marketing evi	####	####	####	####	####	####	####	####	####	####	####	####	####
Miscellaneous	####	####	####	####	####	####	####	####	####	####	####	####	####
Subtotal	####	####	####	####	####	####	####	####	####	####	####	####	####
Training/Trave													
Training clas	####	####	####	####	####	####	####	####	####	####	####	####	####
Training-relat	####	####	####	####	####	####	####	####	####	####	####	####	####
Subtotal	####	####	####	####	####	####	####	####	####	####	####	####	####
TOTALS													
Monthly Plan	####	####	####	####	####	####	####	####	####	####	####	####	####
TOTAL Plan	####	####	####	####	####	####	####	####	####	####	####	####	####

- Income and expenses
- Balance between realistic and aspirational
- Primarily used by executive team and Board-level for planning and monitoring
- Structured like a profit and loss financial statement

Program Budget

- Subset of organizational budget
- Used by program managers to monitor
- Includes direct costs and proportionate share of indirect/shared costs
- For organizations with diverse grantors and funders, this may include multiple funding sources



Grant Budget

- Subset of organizational or program budget depending on the ask, typically minus income
- Communicates how requested grant funds will be used
- Typically accompanied by a “budget narrative” or “budget justification,” which details assumptions, allocation methods, etc.

Localized Improvement Fund for Tomorrow (LIFT) - Small Grants Project Budget SAMPLE				
Note: when entering dollar amounts, please <u>DO NOT</u> use commas as they corrupt the formulas in the budget.				
Total Funding Request:	\$650	← Not Small Grants Fund Budget form is for grant requests under \$5,000 only.		
Project Name:	Art & Coffee Club			
Group or Organization Name	xxx Tenants Association			
Contact Person:	No Name	Contact Phone Number:	204-xxx-xxxx	
Items (eg. salaries, honorariums, project items, rentals)	Total Cost of each item	Amount requested from NAI for each item	Please advise if you receive cash or in-kind support for any of the items and from whom.	
			Amount (cash or in-kind)	Source of funding (confirmed "c" or unconfirmed "u")
Workshop Facilitator Honorarium	\$300.00	\$300.00		
Program Coordinator	\$200.00	\$0.00	\$100 (cash)	Fundraising (c)
			\$100 (in-kind)	Volunteer hours (c)
Art Supplies	\$250.00	\$200.00	\$50 (cash)	Healthy Parenting Grant (u)
Nutritious Break @ \$20.00/week	\$200.00	\$150.00	\$50 (cash)	xxx Tenants Association (c)
Grand Total	\$950.00	\$650.00		
If you have any additional notes you would like to include, please do so in the space below or in your e-mail to NAI.				
Budget notes:				

Established CDFIs: Multi-Year Budgeting for Growth!

- A five-year model that translates your CDFI's goals into specific target areas, including:
 - Trend Analysis - historic & projected
 - Product Level Forecasting, including potential changes in interest rates, spreads, and new product introductions
 - Capitalization planning for operating, loan, and reserves
 - Balance sheet and profit and loss forecasting
- Forecasts the staff, capital, and operating resources needed to achieve the assumptions in your strategic plan.

What words pop into your mind when you think about developing your budget?



Inclusion is Key



For a CDFI's budget to be accurate, effective, and uniting, the budgeting process must be inclusive.

- While the ED and finance staff coordinate the process, program managers know their programs' needs best.
- Keep in mind that budgeting & numbers may intimidate some people.
- Best Practice – conduct an in-service training on the budget development process.

11 Steps to Developing an Organizational Budget



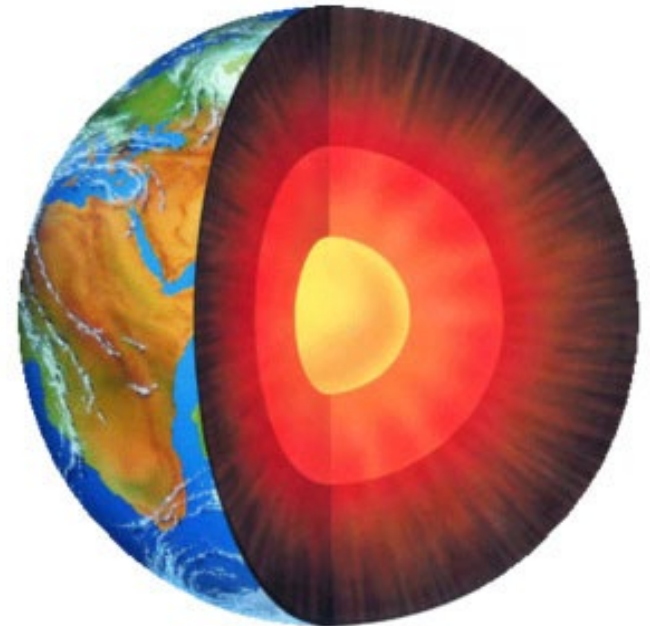
Get Prepared!

- Step 1: Develop a timeline
- Step 2: Gather the team
- Step 3: Communicate the process
- Step 4: Look back
- Step 5: Look ahead



Step 6: Develop a Program Budget!

What are the core components of a budget?



Let's Get to the Core!

- Every organization's budget is going to be unique to the organization based on intended uses, audience, business model, etc.
- Ideally, your budget and profit and loss financial statement would be synchronized, although the full budget provides line-item detail, in line with functional expense statement.
- Every organization/program budget should, at minimum, include *income, expense, and variance*.

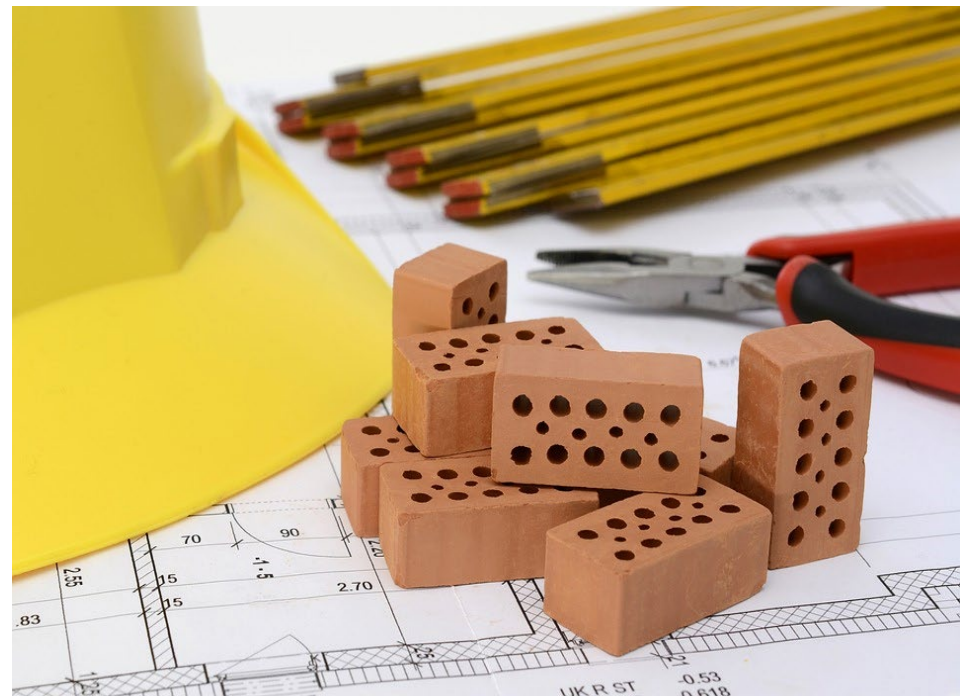
Income, Expense, and Variance!

- **Common income** categories for CDFIs include: Government Grants, Private/Foundation Grants, Earned Income (for CDFIs, this typically includes interest income, fees, closing costs), Donations, Charitable Contributions, and Other.
- **Common expenses** includes Personnel; Fringe; Travel; Equipment; Supplies; Contractual/Consultants; and Other (which includes occupancy, professional development, etc.)
- **Variance** between income and expenses. This is also called net income, surplus or deficit, profit or loss, and shows up on your *Profit and Loss Statement* as “Change in Net Assets”. This is the BOTTOM LINE.

We're Building Something Great!

Step 7: Compile Budget
Components

Step 8: Allocate Shared Expenses



You Build a Budget by...

- Estimating expenses
- Forecasting income
- Be sure to document all assumptions and support schedules that were developed during the process.



Indirect Expenses

- Indirect (overhead) expenses generally include: rent, utilities, telephone/internet, general office supplies, printing/copying, postage/mailing, accounting/audit expenses, liability insurance.
- Start by determining the total estimated cost for each of these categories.
- Did you know there are three ways to determine indirect expenses?

FTE Method

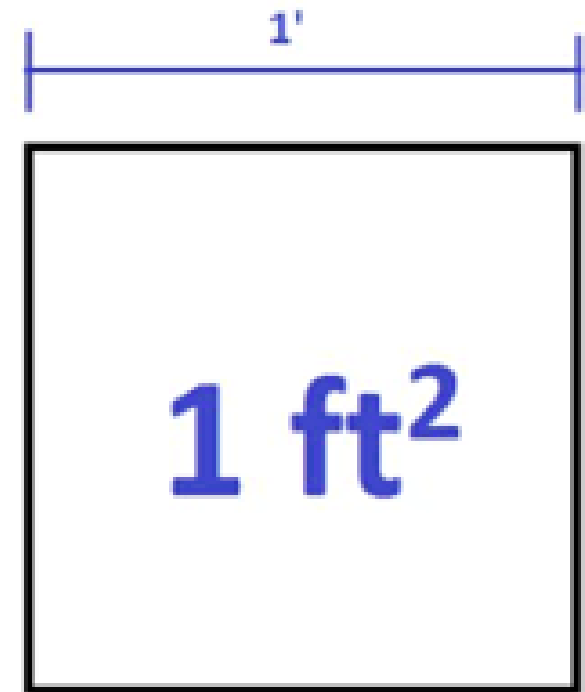
- A program or grant is allocated indirect expenses based on the proportion of total FTEs dedicated to that program/grant in relation to the total FTEs of the organization.
- For example:
 - If total annual rent is \$10,000/year AND
 - the organization has 10 total FTEs AND
 - Program 1 has 3 of the 10 FTEs,
 - Program 1 would be responsible for covering \$3,000 of the org's rent costs for the year.

Pro Rata Proportion Method

- A program or grant is allocated indirect expenses based on a proportion of the total organizational budget that is allocated to that program.
- For example:
 - If an organizational budget is \$1M dollars annually, AND
 - a program's proportion of that annual budget is \$250,000, then
 - the program would be responsible for covering 25% of the organization's total organizational expenses.

Square Foot Method

- This only applies to allocating occupancy-based expenses and makes sense if/when a program occupies dedicated space that is not proportionate to other programs.
- For example, a funder may require you to have physical space that is distinct from other shared spaces. In this method, you determine occupancy expenses based directly on the proportion of square footage that that program occupies in relation to the total organizational square footage.



Finish it up...

Step 9:
Review &
Revise



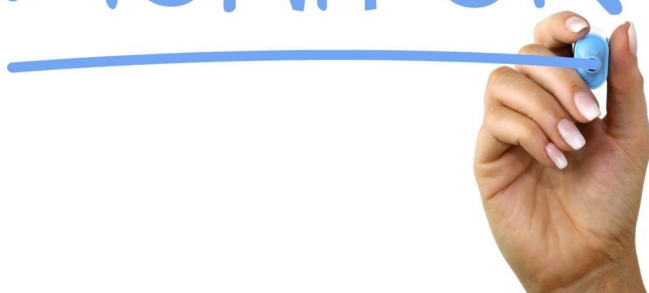
Step 10:
Approve &
Adopt



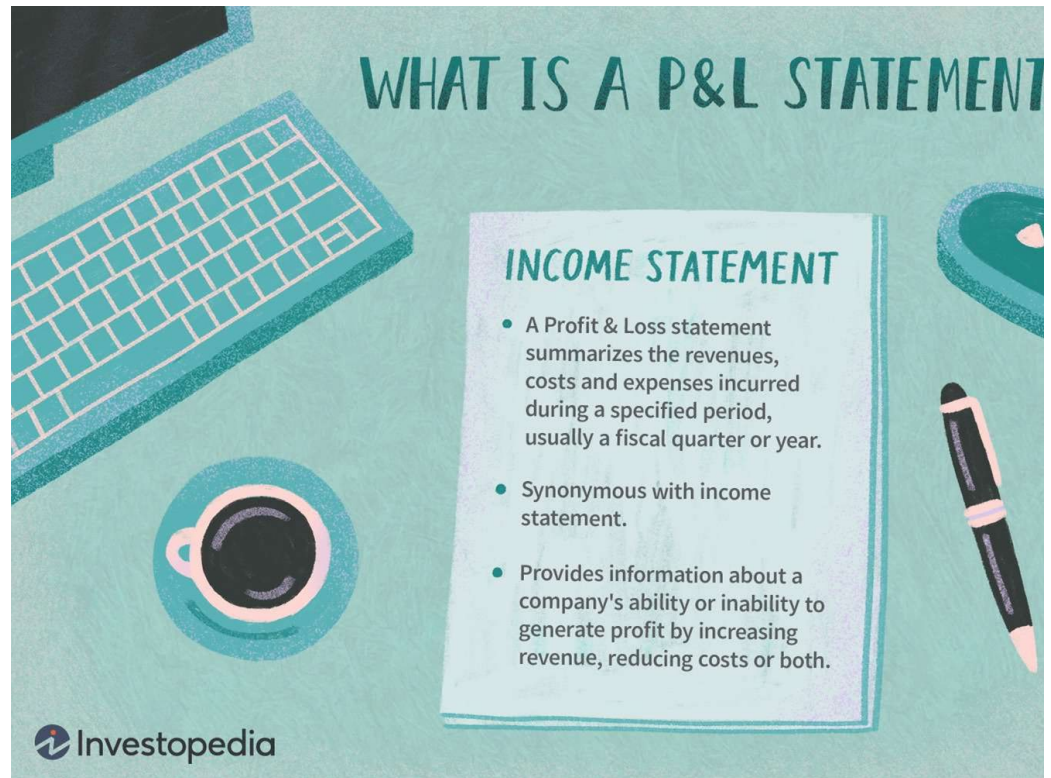
...But it isn't over!

Step 11:

MONITOR



**Let's analyze a
quarterly profit
and loss
statement with
budget to actual
comparisons.**



Budgeting Best Practices - Recap

- Design your budget format thoughtfully from the beginning based on your organization's business plan, intended use of, and audience for the budget, funder requirements, etc. Enlist an accountant if feasible.
- Make sure it isn't an insular process. Program staff understand their needs best.
- Use a consistent shared cost allocation process, and use it for all grants.
- Document your process, methods of calculation, and assumptions.
- Use the budget to plan, monitor, assess, and adjust throughout the year.

What word pops in your head NOW when you think about budgeting?



Questions?

- OFFICE HOURS SCHEDULED: THURSDAY, OCT. 17, 2019, 1PM-2PM ET
 - Open forum for more individualized questions and/or questions related to collections that were not covered in this webinar.
- (Call in information to be inserted)
- Evaluation